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Case studies on large firm strategy: Corporate restructuring, internationalisation and shareholder value

Nishal Robb

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1. Introduction

This brief provides case studies of two large firms operating in South Africa's food system. The first study is on AFGRI, formerly a farmers' cooperative and now operating predominantly in grain silo management and financial services; and the second study is on Shoprite, Africa's largest supermarket chain. Both case studies outline a number of processes that the firms have undergone following the post-apartheid liberalisation of the agricultural sector in the 1990s, alongside other liberalisation processes. These processes include operational and financial restructuring, the influence of the maximisation of shareholder value on firms' sources and uses of funds, and changing ownership and institutional relationships.

Historically, large firms have played a central role in economic development, including in cases of developing countries successfully "catching up" with advanced economies (Penrose, 1956; Amsden, 1989). This is because large firms tend to benefit from economies of scale and scope, and achieve relatively large profits (Chandler et al., 1997; Chabane et al., 2006). They are thus well-placed to make the large-scale investments and long-term financial commitments required to support learning and innovation, research and development, and the acquisition and application of advanced technologies (Chang and Andreoni, 2016). However, achieving developmental outcomes in the process depends to a great extent on large firms reinvesting their profits toward upgrading productive capabilities.

Understanding large firms' strategies and the drivers of these strategies is important for the development of policies aiming to promote the reinvestment of profits and higher levels of investment generally (Andreoni et al., 2021). The two case studies in this brief look at the processes of restructuring and rationalisation of corporate structure and operations (typically the discontinuation of "non-core" activities); the patterns and drivers of disbursement of firms' profits to shareholders relative to reinvestment in improved productive capabilities, especially long-term investments in capital goods and R&D; and the increased use of debt relative to retained profits and equity.

2. AFGRI

2.1. Background

AFGRI was founded in 1923 by a group of 29 maize farmers as the Oos-Transvaal Kooperasie (OTK), diversifying gradually over the course of the 20th century into wheat (1930), milling (1947), equipment retail (1962), grain silos (handling almost 600 000 tonnes by 1972), cotton ginning (1975) and poultry (1985) (Fin24, 2011).

During apartheid, agricultural cooperatives came to play a central role in intermediating between the state and white farmers, and acquired control over powerful nodes in agricultural value chains in the process. Their simultaneous control of grain silos,[1] which tend to operate as natural regional monopolies due to economies of scale and high construction costs, and of the provision of finance to farmers, bestowed agricultural cooperatives with

[1] R444 million in silo construction loans was extended to cooperatives by the state between 1952 and 1995 (Jacobs, 2013, quoted in Ducastel and Anseeuw, 2018). OTK expanded its own grain silo capacity from 587 700 tonnes in 1972 to 2,8 million tonnes by 1983.

two extremely powerful levers with which to advance the interests of their members (Bernstein, 2012; Ncube et al., 2016).

In 1996, OTK transformed from cooperative to company, and opted to list on the JSE.[2] Along with the privatisation of the cooperatives went the privatisation of the silo infrastructure they owned. This liberalisation of the agriculture sector coincided with the relaxation of exchange controls and broader liberalisation of the capital account, opening up the economy to foreign investment (Ashman et al., 2013; Bowman, 2018). Brait S.A., a private equity firm listed in London and Luxembourg as well as the JSE (Brait, 2001),[3] acquired 19 percent of OTK in 2000 and worked together with investment firm Allan Gray (holding a 34 percent stake) to restructure the company. The majority of OTK's board, mostly farmers up until that point, "were politely asked to leave" (Finance Week, 2001) and replaced with directors with backgrounds in finance.[4] New management-level leadership was recruited from Tiger Brands – Graham Ebedes (managing director 2000–2003) and Jeff Wright (managing director 2003–2008) key among these. The restructuring of OTK (whose name changed to AFGRI in 2003) was guided by the adoption of economic value added (EVA) principles, shaping acquisitions and disposals, executives' remuneration, and changes in the company's capital structure so as to maximise returns to shareholders (OTK, 2002). EVA dictated that, for shareholder value to be realised, "[e]very investment should deliver a return higher than the cost of capital" (Finance Week, 2001).[5]

2.2. Operational restructuring: Shedding non-core businesses and expanding geographical reach

On the operational front, AFGRI's restructuring involved the disposal of "non-core" business units, and expansion in its most profitable segments, grain management and financial services.[6] Its grain management business expanded significantly in terms of geography, primarily through the acquisition of other former cooperatives.

The consolidation of former cooperatives has been another important consequence of liberalisation; before the Cooperatives Amendment Act of 1993, agricultural cooperatives were not allowed to compete with one another and were thus contained within prescribed regions (Competition Tribunal, 2006). AFGRI had already acquired the Sentraal-Oos Kooperasie (SOK, in the Free State) in 1996, and continued this drive in the course of its Brait-led corporate restructuring. It acquired the Laeveld Korporatiewe Beleggings Beperk (LK, Mpumalanga and Limpopo) in 2002 and the Natal Agricultural Cooperative Ltd

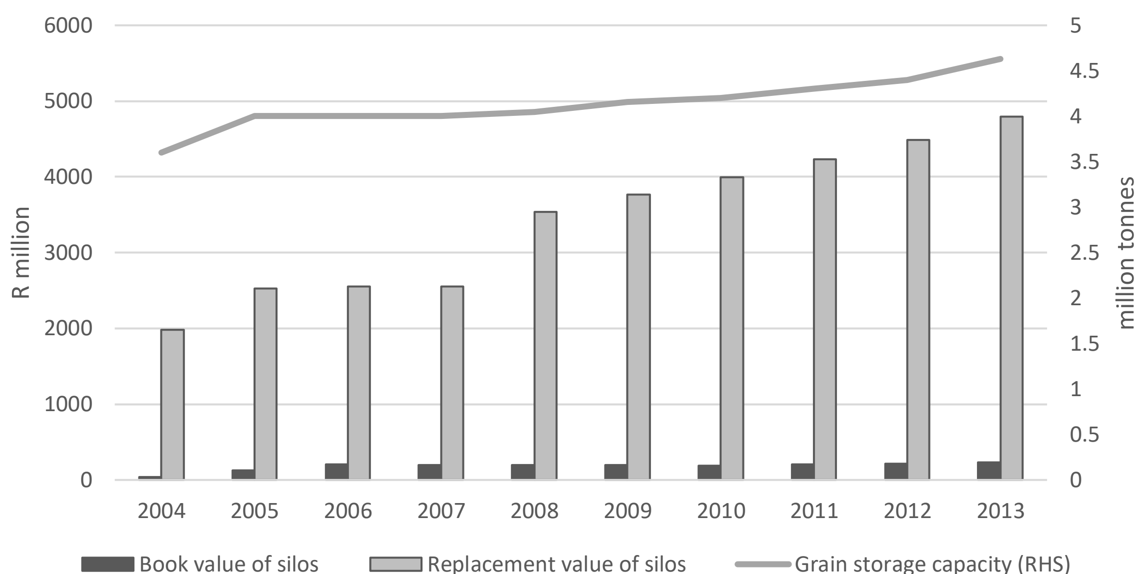
[2] Ducastel and Anseeuw (2018: 561) suggest that the listing aimed "to protect the cooperative from the intrusions of the new government"; however, they also note that OTK was the only former cooperative to adopt this strategy.
[3] In addition to Luxembourg, Brait had a number of other links to tax havens, including through subsidiaries in Mauritius, the Isle of Man and the British Virgin Islands (Brait, 2001: 104).
[4] Including the CEO of Brait, the Executive Chairman of Allan Gray, and Mervyn King – best-known as Chairman of the King Committee on Corporate Governance.
[5] "The Group's adoption of the Economic Value Added business methodology forced us to look at all our businesses from a simple standpoint: do they add to or subtract from shareholder wealth?" – Chairman Pieter Erasmus (AFGRI, 2004).
[6] Disposals: Milling (2001), red meat (2001), stakes in poultry (2004) and commodity trading joint ventures (2004), the sale of its cotton business to Cargill International (2006 – including facilities in Zambia and Malawi), citrus (2008), snacks (2009), seeds (2009), fertilizer (2010), and its retail operations in KZN and the Lowveld (2010) (AFGRI annual reports, 2002–2010).

(Natalagri, Kwa-Zulu Natal)[7] in 2004 (Fin24, 2011; Competition Tribunal, 2002; 2004). It also acquired the grain management business of MGK Bedryfsmaatsappy (MGK, Gauteng, Mpumalanga, North-West) in 2012, leasing MGK's silos and adding 165 000 tonnes to its storage capacity (AFGRI, 2012; Ncube et al., 2016).

Figure 1 provides some further insight into why grain silos have continued to operate as local monopolies despite deregulation aimed at stimulating competition, and thus why silo infrastructure has been so beneficial for firms like AFGRI. The book value (a reflection of original costs) of silos owned by former cooperatives tends to be only a very small fraction of their replacement value (a reflection of what an asset would cost to construct at present). Barriers to entry are thus extremely high for potential competitors, while the legacy infrastructure built by apartheid-era support for white commercial agriculture continues to entrench the market power of incumbents like AFGRI (Ncube, 2016).[8]

AFGRI's restructuring was not a simple matter of downsizing and rationalisation, but one shaped by value-chain-specific opportunities to entrench market power and access rents through strategic acquisitions and significant investments.

Figure 1: AFGRI: value of silos and storage capacity, 2004–2013



Source: AFGRI annual reports (2004-2013), Thomson-Reuters Eikon database

Figure 2 provides an indication of the relative importance of these businesses in terms of contribution to revenue vs. operating profit. Both grain management and financial services

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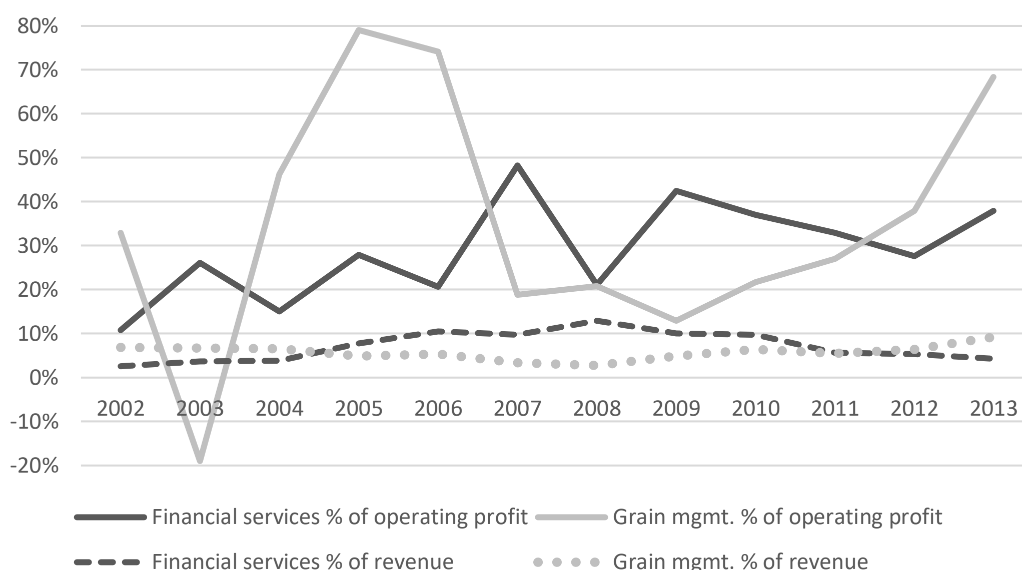
[7] The Natalagri transaction was particularly beneficial, delivering 5 000 farmer customers, 36 retail outlets, an animal feeds factory producing 40 000 tonnes per annum, a debtor book valued at R230 million, and an additional 360 000 tonnes of silo capacity (taking AFGRI's total capacity to around 4 million tonnes), for a purchase consideration of just R29 million (AFGRI, 2005). Natalagri's silos comprised 85 percent of KZN's total commercial grain storage capacity, reflecting the local monopoly power conferred by cooperatives' silo infrastructure (Competition Tribunal, 2004).

[8] In addition to the acquisition of existing silo infrastructure from other former cooperatives, AFGRI also invested in new grain storage technologies with the introduction of horizontal, non-permanent "bunker" silos to South Africa from 2004 onwards. The main advantage of this innovation was cost efficiency – in 2004, bunker construction could take place at one-third of the cost of traditional, vertical silos (AFGRI, 2004). Between 2004 and 2013, AFGRI constructed 13 bunker facilities, including one each in Zambia and Congo Brazzaville (AFGRI, 2013).

comprise a very small proportion of AFGRI revenue, which has largely derived from the equipment retail, animal feed and proteins businesses. However, on average, each contributed a large and increasing percentage of its operating profit between 2002–2013, with profits from the silo infrastructure playing an important countervailing role in years where other business segments performed poorly (see 2004–2006, 2012–2013).[9]

Figure 2: Financial services and grain management: percentage of revenue and operating profit (2002–2013)



Source: AFGRI annual reports (2004-2013), Thomson-Reuters Eikon database.

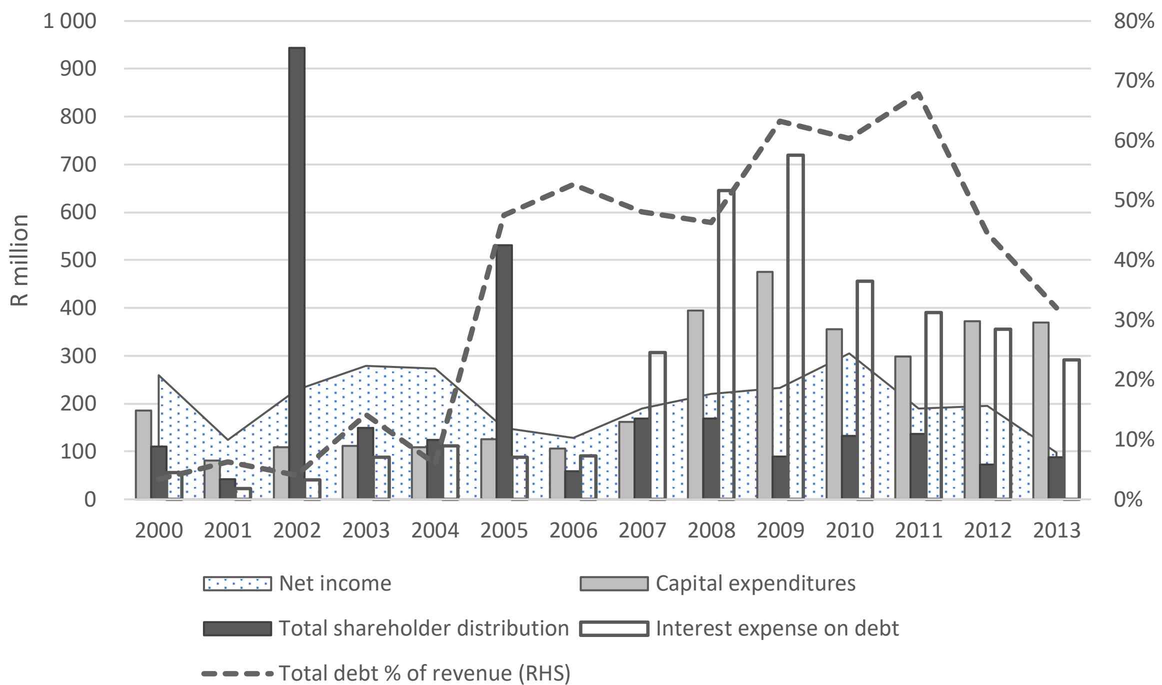
2.3. Financial restructuring and the shift to financial intermediation

Alongside operational restructuring, AFGRI's new board and management restructured its balance sheet according to EVA principles, aiming to reduce the cost of capital. Before this, the firm had no debts, "but also no beneficial financial gearing… borrowed capital can be cheaper than own capital as the interest is tax-deductible" (Financial Week, 2001). AFGRI's total debt skyrocketed, from R124 million in 2000 to a peak of R5,6 billion in 2009.[10]

It also finalised the sale of its debtors' book (interest-bearing loans advanced to farmers and other agribusinesses) to WesBank and the Land Bank for R921 million in 2002. The rationale given for this transaction was to reduce the firm's risk exposure to agricultural debt, to redeploy capital into higher-yielding investments, and to increase returns to shareholders (JSE, 2001).[11] However, it seems that increasing returns to shareholders was the main purpose of the transaction: in 2002, a special capital distribution to shareholders of R832 million was approved, in addition to R69 million in ordinary dividends and R43 million in share repurchases.

[9] The grain management business's operating loss in 2003 was an exception, as a result of mismatched grain hedges by the Trading Division (AFGRI, 2003: 17).
[10] Representing a full 63 percent of that total revenue for 2009. Interest expenses in 2009 reaches R720 million, or 309 percent of net income.
[11] The debtors book yielded around 14,5 percent p.a. in 2001 (Finance Week, 2001).

Figure 3: AFGRI: sources and uses of funds, 1998–2013



Source: AFGRI annual reports (2002-2013), Thomson-Reuters Eikon database

Figure 3 shows some of the key shifts in AFGRI's sources and uses of funds during the restructuring period, including the sharp escalation in debt and associated increased in interest expenses. As previously mentioned, significant capital expenditure is also observed in this period, alongside significant shareholder distributions.[12] However, it is worth noting that the growth in total returns to financial markets over this period – the sum of dividends, share repurchases and interest payments – was driven primarily by interest payments. That is, the primary beneficiaries of the financialisation of AFGRI's capital allocation appear to have been creditors rather than shareholders.

Contrary to its stated intention to reduce exposure to agricultural debt, AFGRI's debtors' book had expanded to R5 billion by 2009 – that is, 8 percent of South Africa's total agricultural debt (AFGRI, 2010; DALLRD, 2020). However, the experience of "severe limitations in terms of… liquidity and the cost of funds" during the 2008/09 global financial crisis sounded alarm bells for AFGRI management (AFGRI, 2011: 33). By 2010, AFGRI had reduced its debtors' book by more than R1 billion year-on-year, selling its Western Cape debtors' book to Capital Harvest (Pty) Ltd for R372 million, in line with a strategy to reduce lending outside of its core grain-producing regions (AFGRI, 2010). It also sold an additional

[12] Note: Total shareholder distribution comprises ordinary dividends, share repurchases, and "special" capital distributions in 2002 and 2005. The 2005 special distribution (R361 million) was paid out from proceeds of the Land Bank-funded acquisition of 26,77 percent of AFGRI's shares by the Agri Sizwe Empowerment Trust, a BEE consortium.

R1,4 billion in farmers' debt to in 2011 and a further R1,04 billion in corporate debt in 2012 – both to the Land Bank (AFGRI, 2012).[13]

In light of this, how did AFGRI's financial services division keep up such a high contribution to the firm's profits while reducing its lending so substantially?[14] From 2010, the Land Bank entered into service-level agreements (SLAs) with a number of "existing market players within the agricultural finance sector" to originate and manage loans on the Bank's behalf (Land Bank, 2020). AFGRI was one of these intermediaries, allowing its financial services business to transition to a model based on management fees. The Land Bank provided wholesale finance to intermediaries at concessional rates for them to on-lend to farmers and other agri-businesses at commercial rates (Land Bank, 2016; Ducastel and Anseeuw, 2018; Clark, 2020). In effect, the Land Bank re-established a role for AFGRI and around six other private businesses in the agricultural sector as key financial intermediaries. This mirrored, in a more concentrated and less developmental form, the role that white commercial farmers' cooperatives had played during apartheid in linking finance to agriculture through the state.

AFGRI took to the new arrangement with great enthusiasm: in 2010 it was managing R2,2 billion in loans on behalf of the Land Bank, growing to R5,5 billion in 2013 and R15,6 billion by 2019 – over one-third of the value of the Bank's total loan book (AFGRI, 2013; Fairfax Africa, 2019; Land Bank, 2020). However, the SLA arrangement was problematic from a number of perspectives.

Firstly, under the SLA, AFGRI would only be liable for bad debts "on a second loss basis to a maximum of between 0,7% and 0,5%" (AFGRI, 2013: 165). Similar terms were presumably in place for the other intermediaries. This misalignment of incentives, as well as generous fees and profit shares for the intermediaries, appears to have driven a major expansion of the Land Bank's balance sheet, with farming debt held by the Bank growing from R14,4 billion in 2010 to R54,2 billion in 2019 (DALLRD, 2020: 79).

Secondly, while the off-balance sheet arrangement may have freed up space on intermediaries' balance sheets, intermediaries like AFGRI were active participants in a range of agricultural markets, suggesting that the SLA model would likely empower incumbents to reinforce their positions. While data on which intermediaries originated loans into which sectors is not publicly available, Land Bank data on the composition of its loan book by agricultural sub-sector suggests that the SLA model is likely to have benefited AFGRI. In 2010, when the SLA model was introduced, the Bank had gross loan book exposure to grains (primarily maize and wheat) of R4,3 billion, or 31% of its gross loan book; by 2019, it had R26,3 billion – 58% of its gross loan book. Further, of this R26,3 billion of loans to grain producers, R19,3 billion was originated by intermediaries under the SLA model .

By 2018, Land Bank annual reports start to reflect concerns with "[f]ailure to incentivise SLA partners to allocate funds to support transformational transactions at sufficient scale" (Land Bank, 2018: 73). The remuneration model came into question, as it "neither incentivizes optimisation of margin by the SLA partners, nor results in a fair distribution of margin between the Bank and the SLA partners." (Land Bank, 2019: 75). Then concerns around the Land Bank

[13] The sale of these books likely contributed to falling total debt as a proportion of revenue from 2011 due to lower levels of borrowing to fund on-balance sheet loan origination.
[14] 38 percent of total operating profit in 2013.

losing "control on credit risk management" as a result of the SLA model arose (Land Bank, 2020: 95).

However, by this point non-performing loans (NPL) as a proportion on the gross loan book had risen from a low of 3,3% in 2014 to 18,1% in 2020,[15] with R5,8 billion out of a total R8,2 billion NPLs having been originated through SLAs. This resulted in insourcing loan books totalling R17,8bn from AFGRI and one other SLA partner that year (Land Bank, 2021). A Land Bank presentation to Parliament's Select Committee on Finance documented that the NPL level in these insourced books had surpassed 50%; together with the sheer volume of loans that AFGRI originated on behalf of the Land bank, the evidence suggests that AFGRI played a significant role in triggering the Bank's subsequent financial crisis (Land Bank, 2021). The Land Bank failed to meet its own debt obligations in 2020 when it defaulted on repayments to a key creditor in 2020, triggering demands for repayment by other creditors (Cotterill, 2020; Ensor, 2020). This crisis had led to a planned restructuring of the Land Bank that will see its loan facilities shrink from R45,1bn in 2020 to under R10bn by 2025/2026 (Land Bank, 2021).[16] In all, the SLA model was disastrous for the Land Bank, but AFGRI appears to have profited handsomely from it.[17]

In the meanwhile, AFGRI had finalised the acquisition of the South African Bank of Athens (SABA) in 2018, expanding its financial services offering to include "the acceptance of deposits and cross-border financial settlements and flows, while simultaneously gaining access to SABA's expertise in alliance, business and international banking" (AFGRI, 2018). SABA was renamed Grobank, "to reflect its re-positioning as an agricultural sector focused bank"; AFGRI had thus positioned itself well to take advantage of the massive reduction in the Land Bank's commercial lending (Fairfax Africa, 2019: 13).

2.4. Changing ownership, private equity takeover and further restructuring

With regard to ownership and control, AFGRI has undergone a number of major shifts. First, as discussed above, the former cooperative's privatisation and stock exchange listing, followed by the Brait restructuring process, removed it from the control of its traditional farmer membership base (Ducastel and Anseeuw, 2018). Second, in the years following its JSE listing, the proportion of AFGRI shares held by institutional investors – banks, insurance companies, mutual funds and pension funds – rose significantly, peaking at 78 percent in 2013 (AFGRI annual reports). Third, while the publicly available data on the geographical distribution of AFGRI's shareholders is patchy, it is likely that a growing proportion of these institutional shareholders were from outside South Africa, with these inflows driven to a significant extent by monetary conditions in advanced economies – such as low interest rates, and quantitative easing – in the wake of successive financial crises (Kaltenbrunner and Painceira, 2014; Isaacs, 2018).

Lastly, AFGRI became a private company and delisted from the JSE in 2014, following a takeover by AgriGroupe, a Mauritius-based consortium (Ducastel and Anseeuw, 2018). AgriGroupe is a holding company that is 100 percent controlled by Joseph Investment Holdings (JIH), which itself is controlled by AgriGroupe Investments LP, incorporated in the Cayman Islands (Competition Tribunal, 2014). The ultimate owner of the 60 percent stake acquired by AgriGroupe was a group of North American investors led by Fairfax Financial

[15] Up to 27% in 2021 (Land Bank, 2021).
[16] Of which R5,6bn will be for a new "Development and Transformation" division.
[17] Operating margins in financial services averaged 43% between 2010-2013 (the only years of the SLA programme for which these figures are available), against an average of 8% for the firm as a whole.

Holdings, a Canadian private equity company. The remaining 40 percent was split among Bafepi Agri (20 percent)[18], the PIC (15 percent) and AFGRI management (5 percent).

Under its new ownership, AFGRI further streamlined its operations, selling its poultry operations to another BEE consortium in 2015. CEO Chris Venter confirmed that the disposal was part of a strategic decision "to enhance AFGRI's position in the grain value chain", and that the company's remaining interests in foods and processing activities would be grain-related (AFGRI, 2015). In 2017, these businesses – maize and wheat milling, edible oils and animal feeds – were spun off into a separate company, Philafrica Foods, and a former Nestlé executive appointed as CEO (Fairfax Africa, 2017).

In 2019, AFGRI's grain storage assets – 4,7 million tonnes of storage capacity across 69 silos and 15 bunkers by this point – were spun off into a separate "platform", the AFGRI Grain Silo Company or "SiloCo" (Fairfax Africa, 2019). AgriGroupe brought in three additional institutional investors – Stanlib Infrastructure Investment, Wiphold and the Land Bank – to acquire stakes in AFGRI SiloCo, with the proceeds presumably distributed among AFGRI shareholders (AFGRI, 2019). AFGRI's equity in the silo infrastructure had fallen from 100 percent before the transaction, to 26,5 percent in 2019 and just 11 percent by 2021 (AFGRI, 2019; Fairfax Africa, 2019; Helios Fairfax Partners, 2021).[19] The two main strategic objectives for this new structure were to free up resources for expanding its grain storage facilities further into other African countries, and to "[unlock] the value of AFGRI's grain storage assets, the proceeds from which will be used to further expand AFGRI's financial services reach and support for farmers" (AFGRI, 2019).

3. Shoprite

3.1. Background

Shoprite has its roots in one of South Africa's large conglomerate groups, Pepkor. With interests in clothing manufacturing and retail, groceries, and property, Pepkor was once "Africa's largest retail conglomerate" (Strydom, 2020). Shoprite, Pepkor's groceries division, was listed on the JSE in 1986 with a market capitalisation of R29 million, and began to rapidly expand its business – aimed at middle- and lower-income segments of the retail market – across the country and region (Shoprite, 2021).

This took place both through organic expansion and through acquisitions, with notable early acquisitions including supermarket chains Grand Bazaars (1990), Checkers (1991) and OK Bazaars (1997), as well as Sentra (1995) – a centralised procurement and distribution organisation. By 2000, when Shoprite was unbundled from Pepkor, it had already established 56 outlets outside of South Africa, spread across Namibia (1990), Zambia (1995), Mozambique (1997), Eswatini (1998 – then Swaziland), Zimbabwe (2000) and Uganda (2000)

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[18] A BEE consortium led by Matome Maponya Investments (MMI). The PIC provided MMI with R367 million to fund its stake in AFGRI, and later provided MMI with R648 million to fund its acquisition of Daybreak Farms from AFGRI in 2015, raising questions of improper relations and over-exposure of the PIC to single counterparties at the Judicial Commission of Inquiry appointed in 2018 to investigate allegations of impropriety at the PIC (PIC Commission, 2020).

[19] Regarding the interest of these institutional investors in grain silo infrastructure, WIPHOLD (25 percent stake) described it as "a unique infrastructure type asset in the agriculture and grain value chain with stable, growing cash flows… The investment generates returns that are well above current yields on infrastructure-type assets and generates an attractive and growing running yield" (WIPHOLD, 2021).

and with further African expansions already being planned (Shoprite, 2021). At this point it employed almost 30 000 permanent staff and 50 000 "temporary and casual workers" across 988 supermarkets, convenience stores, furniture outlets and other operations (Shoprite, 2000, 1; 10). By the early 2000s it was estimated that the Shoprite group and Pick n Pay, its largest rival, together accounted for around 80 percent of the food retail market (Reardon et al., 2003).[20]

3.2. Continuity in key growth strategies

Shoprite's two major growth strategies – maintaining high domestic market share and entering new international markets through expansion and acquisitions – have remained remarkably consistent over many decades (Okeahalam and Wood, 2009). Due to a combination of market structure, the requirement for substantial early investments in facilities and capabilities, and "strategic barriers" related to anticompetitive strategies by dominant firms, barriers to entry in South African retail are high (das Nair and Chisoro-Dube, 2015). There is no doubt that the economic power of a dominant incumbent position has played a key role in Shoprite's growth. Nevertheless, Shoprite has also maintained its dominant position in part due to substantial investments and innovative marketing strategies.

A key component of Shoprite's domestic growth strategy has been to develop specific, branded retail offerings for different markets segmented by income (das Nair and Chisoro-Dube, 2015). While Shoprite-branded stores continue to target the group's historical lower- to middle-income customer base, it has consolidated its various other acquisitions and offerings into two other major brands: Checkers, aimed at middle- to high-income customers; and Usave, targeting "lower-income customers seeking discounted products", largely outside of urban centres (Shoprite, 2019, 22). A recent example of the development of this strategy is Shoprite's new "eKasi" format. Established in 2019 under its low-income-targeting Usave division, the eKasi offering consists of micro-outlets housed either in shipping containers or mobile trucks that aim to "move us closer to customers' homes" and thus compete directly with spaza shops in townships (Shoprite, 2019, 26).[21] Shoprite's domestic growth has been underpinned by large and consistent investments in centralised distribution and warehousing facilities.

In addition, Shoprite has integrated a number of other acquired and homegrown businesses into its supermarket offerings over the years. These include: Medirite, a chain of pharmacies that operate inside Shoprite supermarkets, and Transpharm, a wholesale distributor of pharmaceutical products (144 outlets, 2 distribution centres and a 108-vehicle fleet); Computicket and Computicket travel, a leading ticketing agent and call-centre business; LiquorShop, a chain of liquor stores situated adjacent to Shoprite supermarkets (523 stores and almost 3–000 employees); K'nect, a financial services and cellular business aimed at "low- to middle-income markets"; and Money Market counters, a financial services business

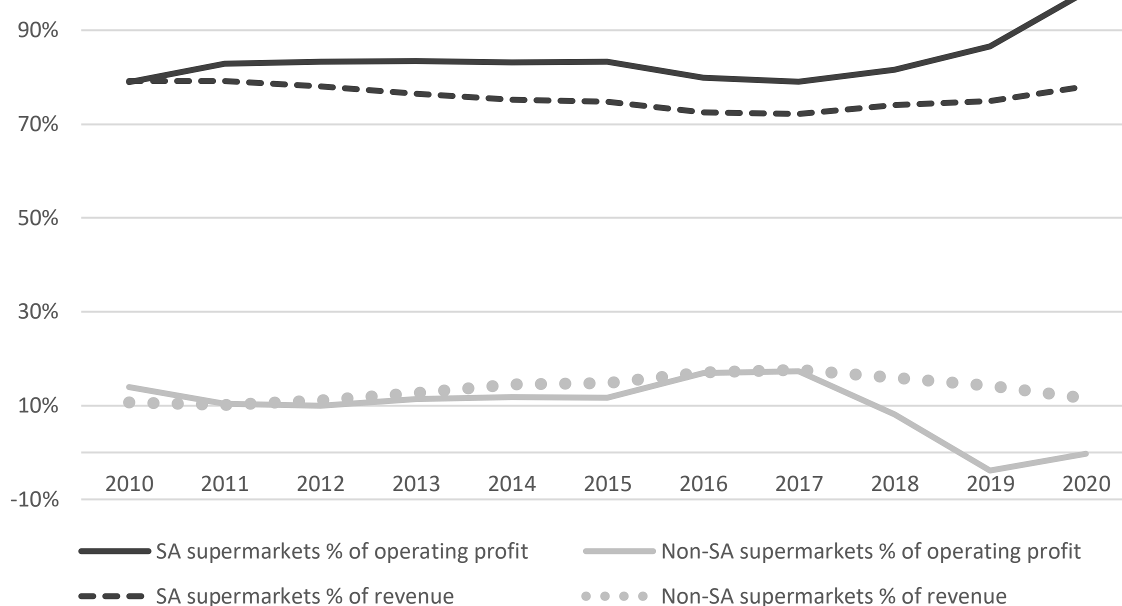
[20] Referenced in Okeahalam and Wood (2009).
[21] An interesting older example in Shoprite's acquisition of Foodworld's 17 stores in 2005. Foodworld was a family-run business catering primarily for Cape Town's Muslim customer base in lower-income areas. In a Competition Tribunal hearing, Shoprite contended that it "had not in the past had ideal premises of other facilities in the Western Cape to provide halaal offerings", and that the acquisition of Foodworld's business would allow it to expand its presence more effectively in the province (Competition Tribunal, 2005, 2).

housed in all group supermarkets providing for personal loans, global money transfers, utilities payments, cellular data and, most recently, life and funeral cover (Shoprite, 2020).[22]

In terms of international growth, Shoprite continued to expand rapidly in the early 2000s, entering a number of new countries including: Egypt and Malawi (2001); Madagascar (2002); Angola and Ghana (2003); India, through a franchise agreement (2004); Nigeria (2005), the Democratic Republic of Congo (2011) and Kenya (2018). But it has also exited a number of these countries, discontinuing operations in Egypt (2006), India (2010), Zimbabwe (2013), Madagascar (2018) and, most recently, Kenya and Nigeria (2021).

In 2000, the group's "long-term aim [was] to increase the operating income from other African countries to more than 50 percent of Group revenue" (Shoprite, 2000, 8). However, while Shoprite's international reach has expanded significantly in the last two decades, Figure 4 shows that its South African supermarkets have consistently delivered above 80 percent of operating profit and above 70 percent of revenue over the last ten years.

Figure 4: SA vs. non-SA supermarkets' contribution to operating profit and revenue



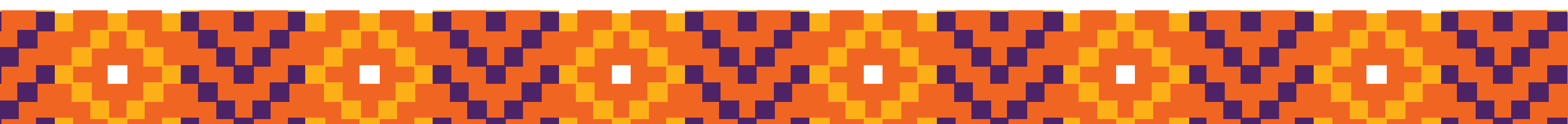
Source: Shoprite annual reports (2010-2020); Thomson-Reuters Eikon database

3.3. Sources and uses of funds

Shoprite's sources and uses of funds, reflected in Figure 5 below, show the significant capital expenditures that have driven the group's domestic and international expansion projects. However, while remaining high, capital expenditure as a proportion of net income fell in the latter period; the 2000–2009 average was 138 percent, while the 2010–2019 average was 106 percent.

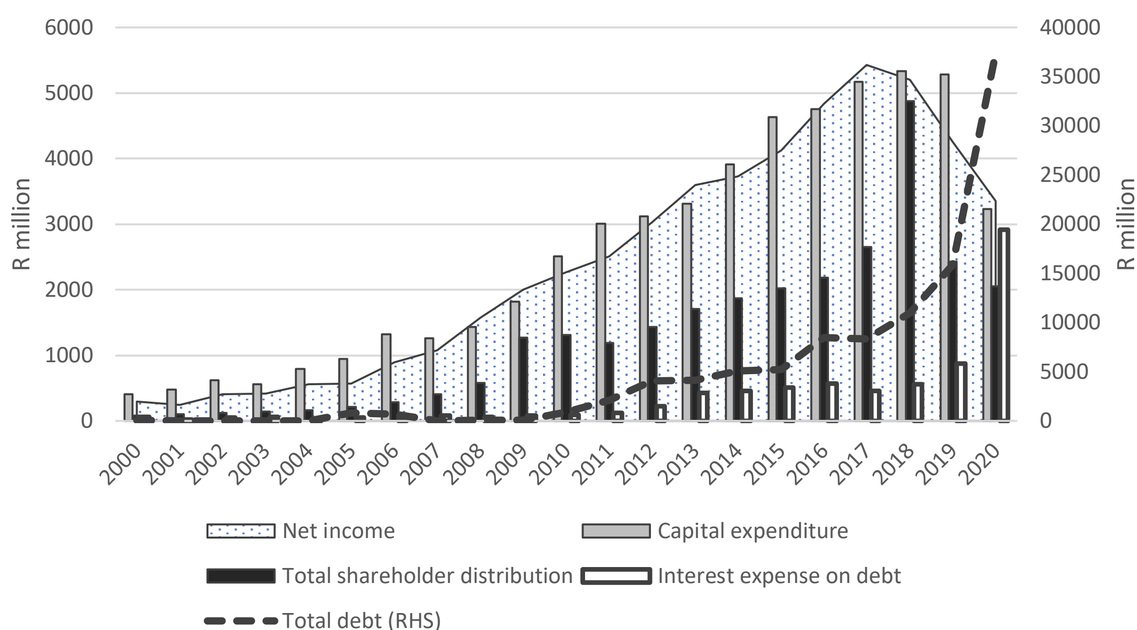
Figure 5 also indicates an increasing proportion of Shoprite's net income paid out as distributions to shareholders – from 37 percent in 2000–2009 to 54 percent in 2010–2019.

[22] Numbers as of Shoprite's 2020 annual report.



While repurchases played a significant role in these distributions, this increase was driven primarily by dividend payments.

Figure 5: Shoprite: sources and uses of funds, 2000–2019



Source: Shoprite annual reports (2010-2020); Thomson-Reuters Eikon database

Until the mid- to late-2000s, Shoprite relied mainly on retained earnings to fund its aggressive expansion, reducing its exposure to fluctuations in global credit availability and making it less dependent on external funding in general (Okeahalam and Wood, 2009). However, in the context of loose monetary policy in advanced economies following the global financial crisis, Shoprite's total debt began to rise rapidly.[23] While available data on the composition of Shoprite's debt over the full period in Figure 5 are poor, Shoprite began reporting sharp increases in dollar-denominated borrowings from 2015. From 2015 to 2018, Rand-denominated debt increased from R110 million to R134 million. Dollar-denominated debt shot from R249 million to R6,9 billion over the same period (Shoprite 2016; 2018), prompting concern from analysts that "Shoprite has taken on dollar-denominated debt but makes its money in highly volatile currencies across the continent, and in rands at home" (Ramalepe, 2019).

While there are recent indications that Shoprite has succeeded in reducing its dollar debts significantly (see Child, 2021), such large exposure to currency risk is concerning given that Shoprite has no US dollar-generating assets or plans to acquire any. Shoprite's 2018 annual report describes exchange-rate volatility and access to hard currency as a high-risk concern, and proposes two noteworthy mitigation strategies. The first is to increase investments in US treasury bills (short-term, low-yield debt obligations). The second is that Shoprite instructs its subsidiaries to disgorge "excess" cash to the parent company to settle short-term loans (Shoprite, 2018, 25). Neither strategy appears positive for development locally. The first, as implied in Strauss (2016) and Akyuz (2018), entails a net export of capital from

[23] As shown in Figure 5, Shoprite's total debt appears to have more than doubled between 2019 and 2020, from an already substantial R15,8 billion to over R37 billion. This increase appears to have been driven by a change in accounting practices relating to lease liabilities rather than reflecting massive new borrowings, however further research would be useful in clarifying this.

South Africa to Shoprite's overseas creditors, as creditors collect a healthy return on dollars borrowed by Shoprite while Shoprite holds onto low-yielding treasuries to mitigate its exchange rate risk. The second extracts capital from subsidiaries to repay debt, to the benefit of creditors and financial markets, and at the expense of possible expansion of capital investment domestically.

4. Discussion

Each of the two case studies presented in this brief describes the processes and patterns that have concerning implications for South Africa's development. A number of lessons and insights can be drawn from these.

In the case of AFGRI, the consequences of rapid liberalisation and the privatisation of critical economic infrastructure has cemented the firm's market power, rendering this infrastructure into a mechanism for rent extraction. Over time, ownership of the income streams flowing from these assets has become increasingly international and increasingly financial, arguably undermining prospects for reinvestment in South Africa. In addition, AFGRI's relationship with the Land Bank has had disastrous consequences for the latter while the former was able to walk away with significant profits, enhanced financial intermediation capabilities and extensive networks in agricultural financing.

The success of Shoprite's multiple growth strategies, and its rapid expansion throughout South Africa and the continent, also appears to result in a suboptimal distribution of profits and power. While its international footprint is undoubtedly impressive, the vast bulk of its profits are earned in South Africa and then invested elsewhere or distributed to creditors and shareholders. In addition, the growth in the firm's foreign-denominated debts has been alarming, exposing it to significant exchange rate risk and necessitating developmentally costly risk mitigation strategies. This development also signals the nature of South African firms' integration with global financial markets; cheap credit in advanced economies is a clear driver of corporate indebtedness in large firms in emerging economies and developing countries.

The policy question arising from both cases is essentially about how to ensure that a greater share of large and lead firms' profits is productively re-invested in South Africa, relative to the share that is paid out to shareholders and creditors, or invested in overseas capabilities. Negotiations around minimum commitments to enterprise and supplier development programmes as part of government's Agriculture and Agro-processing Master Plan suggest one possible approach. However, this would be hard to monitor and assess at present, and would depend on persuasion. Bolder, alternative approaches could proceed based on the premise that dominant firms owe a debt to the societies in which they operate. Logical outcomes of this premise would be industrial policy interventions that impose competitive discipline, enforce consequences for anti-developmental behaviours, and incentivise reinvestment more forcefully.

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